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INFO OCT-01 EUR-12 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 SS-15 STR-04 OMB-01 CEA-01 COME-00

FEA-01 ERDA-05 CIAE-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 PM-04 SAM-01 OES-03 IO-11 /110 R

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FM SECSTATE WASHDC

TO AMEMBASSY TOKYO PRIORITY

AMEMBASSY BERN

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AMEMBASSY HELSINKI

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AMEMBASSY LUXEMBOURG
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E.O. 11652: N/A

TAGS: EFIN, ENRG, CIEC

SUBJECT: LONG-TERM ECONOMIC SURVEY IN CIEC FINANCIAL
AFFAIRS COMMISSION

1. REQUEST THAT ACTION POSTS PASS TO HOST COUNTRY HEADS OF DELEGATIONS TO FINANCIAL AFFAIRS COMMISSION (FAC) OF CIEC US DELEGATION THOUGHTS IN PARAS 2 TO 6 BELOW ON STRATEGY FOR PRESENTING LONGER TERM WORLD ECONOMIC OUTLOOK IN MARCH MEETINGS OF FAC. HEADS OF DELEGATIONS TO FEBRUARY MEETING WERE JAPAN, KIROMASA DAN, MINISTRY OF FINANCE; EC, PIERRE JANNS, LUXEMBOURG BANKING COMMISSION AND UGO MOSCA, EC COMMISSION; SWEDEN, P. VINDE, MINISTRY OF FINANCE; AND SWITZERLAND, PIERE LANGUETIN, CENTRAL BANK. TO US MISSION OECD, PLEASE PASS FOLLOWING THOUGHTS TO DONDELINGER'S OFFICE, TO JOHN FAY AND STEVE MARRIS, AND TO CANADIAN AND AUSTRALIAN OBSERVERS TO FAC. TO EMBASSY BRUSSELS, PLEASE PASS TO VAN YPERSELE.

2. THE FIRST SEVERAL DAYS OF THE MARCH MEETING OF THE FAC WILL BE DEVOTED TO A GENERAL SURVEY OF THE WORLD ECONOMIC AND FINANCIAL SITUATION WITH THE EMPHASIS ON THE MIDDLE-TERM OUTLOOK, E.G. 1977-80. IN PREPARING FOR THIS TOPIC, WE BELIEVE IT IS CRITICAL THAT THE G-5 COUNTRIES KEEP IN MIND OUR GENERAL APPROACH IN THE ENERGY COMMISSION

AND STRUCTURE OUR PRESENTATIONS SO THAT THEY ARE SUPPORT-
IVE OF THE DEVELOPED COUNTRY STRATEGY FOR THE ENERGY
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COMMISSION.

3. A BASIC ELEMENT OF OUR STRATEGY FOR THE ENERGY COMMISSION IS TO HAVE THE COMMISSION STUDY IN DEPTH THE RELATIONSHIPS BETWEEN THE PRICE AND SECURITY OF SUPPLY OF ENERGY AND ECONOMIC GROWTH, INVESTMENT REQUIREMENTS AND INFLATION. THIS ANALYSIS WILL CONSIDER BOTH THE DIRECT EFFECTS ON THE NON-OIL LDCS AND THE INDIRECT EFFECTS ON THE LDCS DUE TO THE DIRECT EFFECTS ON THE

ECONOMIES OF THE INDUSTRIALIZED COUNTRIES. THE OPEC COUNTRIES ARE RESISTING SUCH AN ANALYSIS IN THE ENERGY COMMISSION, BUT WE UNDERSTAND THE NON-OIL LDCS ARE INSISTING IN THE G-19 THAT THIS SUBJECT BE CONSIDERED BY THE ENERGY COMMISSION.

4. IN ORDER TO BE SUPPORTIVE OF OUR ENERGY COMMISSION OBJECTIVES WE BELIEVE THAT IN THE GENERAL SURVEY IN THE FAC THE INDUSTRIALIZED COUNTRIES SHOULD NOTE THE SERIOUS QUESTIONS THAT THE PRESENT HIGH OIL PRICES AND UNCERTAINTY ABOUT SUPPLIES RAISE FOR THE FUTURE ECONOMIC PROSPECTS OF BOTH THE OECD COUNTRIES AND THE NON-OIL LDCS AND INDICATE OUR UNDERSTANDING THAT THE ENERGY COMMISSION WILL ADDRESS THESE QUESTIONS AND THAT THE FAC SHOULD AT A LATER DATE CONSIDER THE FINANCIAL IMPLICATIONS OF THE RESULTS OF THE ENERGY COMMISSION'S ANALYSIS.

5. WE SEE TWO POSSIBLE DANGERS THAT MUST BE AVOIDED. FIRST, WE DO NOT WANT TO GIVE THE OPEC A BASIS FOR ARGUING IN THE ENERGY COMMISSION THAT THE FINANCIAL COMMISSION HAS ALREADY CONSIDERED THE ECONOMIC EFFECTS OF ENERGY PRICES AND THEREFORE THAT THE ENERGY COMMISSION NEED NOT UNDERTAKE THE ANALYSIS. SECOND, IN OUR PRESENTATIONS IN THE FAC WE SHOULD AVOID BEING SO DEFINITIVE ABOUT THE FUTURE PROSPECTS FOR THE WORLD ECONOMY THAT WE LIMIT OR PREJUDGE THE RESULTS OF THE ENERGY COMMISSION STUDY. RATHER, WE SHOULD SPEAK IN TERMS OF RANGES OF POSSIBLE DEVELOPMENTS, NOTING THE CRITICAL IMPORTANCE OF FUTURE ENERGY DEVELOPMENTS IN DETERMINING WHAT COURSE THE WORLD ECONOMY ACTUALLY FOLLOWS. WE SHOULD STRESS THE ESSENTIAL INTERDEPENDENCE OF THE INDUSTRIALIZED, OPEC, LIMITED OFFICIAL USE

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AND NON-OIL DEVELOPING COUNTRY ECONOMIES AND REJECT THE NOTION THAT THE NON-OIL DEVELOPING COUNTRY OR OPEC ECONOMIC PROSPECTS CAN BE DETERMINED INDEPENDENT OF DEVELOPMENTS IN THE INDUSTRIALIZED COUNTRIES.

6. WITH RESPECT TO THE PROSPECTS FOR ECONOMIC GROWTH AND BALANCE OF PAYMENTS DEVELOPMENTS OF THE OPEC, MSAS AND OTHER NON-OIL LDCS, WE BELIEVE THE DELEGATES FROM THESE GROUPS SHOULD BE PRESSED TO GIVE THEIR VIEWS OF THE PROSPECTS FOR THEIR COUNTRIES. THE G-5 COUNTRIES SHOULD COME TO THE MARCH MEETINGS WITH QUESTIONS ON THE UNCTAD VIEW OF MIDDLE-TERM ECONOMIC OUTLOOK AND DO OUR BEST TO STIMULATE AND SUSTAIN A DIALOGUE ON THESE ISSUES. WHILE

THE G-19 IS LIKELY TO BE RESISTANT TO SUCH EFFORTS, WE

SHOULD EMPHASIZE THE NEED TO DEVELOP A COMMON VIEW ON THE WORLD OUTLOOK AND ON THE NATURE AND DIMENSIONS OF ANY FINANCIAL PROBLEMS CONFRONTING THE DEVELOPING COUNTRIES BEFORE MOVING ON TO CONSIDER HOW SUCH PROBLEMS MIGHT BEST BE RESOLVED.

7. (COMMENT. THE POINTS RAISED IN 2 THROUGH 5 ABOVE ARE PRESUMABLY WELL UNDERSTOOD BY DELEGATES TO THE ENERGY COMMISSION. WE ARE CONCERNED, HOWEVER, THAT SOME DELEGATIONS TO THE FINANCIAL AFFAIRS COMMISSION, INCLUDING THE OECD SECRETARIAT, MAY NOT BE AS WELL AWARE OF THESE CONSIDERATIONS.) KISSINGER

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